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Annual Report

**COSMOS
IMPERIAL
MILLS,
LIMITED**

1968

Sub

COSMOS IMPERIAL MILLS, LIMITED

and its wholly owned subsidiaries
J. SPENCER TURNER CO. LIMITED
and
YARMOUTH INDUSTRIAL FABRICS LIMITED

1968 ANNUAL REPORT

HIGHLIGHTS OF THE REPORT

	1968	1967
→ Sales	\$5,835,447	\$6,369,773
→ Net Income	201,255	383,633
Per dollar of sales . . . . .	.03	.06
→ Per share . . . . .	.50	.96
Dividends per share . . . . .	.60	.80
Salaries, wages and employee benefits	1,809,308	1,936,767
Working capital	783,808	1,398,317
Shareholders equity	4,834,754	4,873,499
Per share	12.09	12.18

See also page 14

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DIRECTORS

Residence

DONALD M. CAIN

YARMOUTH, NOVA SCOTIA

Vice-President and Resident Director,
Cosmos Imperial Mills, Limited

RONALD K. FRASER

HAMILTON, ONTARIO

President and Chief Executive Officer,
Fleet Manufacturing Limited

C. SYDNEY FROST, M.C., D.C.L.

TORONTO, ONTARIO

Retired

E. DOUGLAS JAMES

ANCASTER, ONTARIO

President,
Cosmos Imperial Mills, Limited

ROBERT N. STEINER

ANCASTER, ONTARIO

Senior Vice-President,
A. E. Ames & Co. Limited

ALAN V. YOUNG

HAMILTON, ONTARIO

Chairman of the Board,
The Hamilton Cotton Company, Limited

WILLIAM H. YOUNG

ANCASTER, ONTARIO

Chairman of the Board,
Cosmos Imperial Mills, Limited

112-555-1212

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OFFICERS

WILLIAM H. YOUNG

Chairman of the Board

E. DOUGLAS JAMES

President and Chief Executive Officer

GORDON B. LAWRENCE

Senior Vice-President

DONALD M. CAIN

Vice-President and Resident Director

G. HOWARD PULLAM

Vice-President, Sales

PAUL A. SOUTHALL, C.A.

Vice-President, Finance
and Secretary-Treasurer

LEGAL COUNSEL

EVANS, RUTTY AND HUSBAND

HAMILTON, ONTARIO

AUDITORS

CLARKSON, GORDON & CO.

HAMILTON, ONTARIO

STOCK TRANSFER AGENTS

THE ROYAL TRUST COMPANY

TORONTO, ONTARIO

REGISTRARS

THE BANKERS' TRUST COMPANY

TORONTO, ONTARIO

HEAD OFFICE

HAMILTON, ONTARIO

MILLS

HAMILTON, ONTARIO

AJAX, ONTARIO

TRENTON, ONTARIO

MARYSVILLE, NEW BRUNSWICK

YARMOUTH, NOVA SCOTIA

527-2984

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FORTY-THIRD ANNUAL REPORT OF THE BOARD OF DIRECTORS

FOR THE YEAR ENDED DECEMBER 31, 1968

TO THE SHAREHOLDERS

Your Directors are pleased to submit the forty-third annual report and financial statements for the year ended December 31, 1968.

BUSINESS CONDITIONS

Sales in 1968 were 8.7% lower than in 1967, although the physical volume was down by only 4.9%. This reflects lower per-unit prices.

During the year employment was reduced, chiefly because of imports from low-wage countries not only in fabrics but in finished products utilizing such fabrics. It is of utmost importance to the Canadian textile industry that the Federal Government adopt a policy to limit the disastrous effects on Canadian production and employment of increasing low-wage imports. A policy has been promised to the industry, but it is as yet unstated.

A drop in domestic sales of 13% was partially compensated for by an increase in export sales but at marginal prices which affected the total return unfavourably.

The domestic market has shown some strengthening in the first quarter of 1969 and production and sales are both improved. While selling prices remain depressed by the effect of offerings from low-wage countries, some selective increases have been made to date in 1969. It is hoped that these price advances can be applied more generally to overcome the continuing increase in wage, salary and other costs and so return our operations to a profitable level.

FINANCIAL

After providing for all expenses, the loss from operations amounted to \$149,213. Income from investments and profit on sale of investments more than offset this loss, and the income before income taxes recoverable amounted to \$15,255. After recovery of income taxes, the net income for the year was \$201,255, compared with \$383,633 in 1967.

It will be noted from the financial statements that the working capital was reduced during the year, principally by the acquisition of fixed assets to conclude the major capital expenditures at Yarmouth Industrial Fabrics.

Dividend payments of 60c per share were made during the year but payment of the usual dividend at November 15th was omitted. The dividend for the first quarter of 1969 was also omitted.

SUBSIDIARY COMPANIES

Yarmouth Industrial Fabrics Limited continues to operate under tax exemption provisions of The Income Act and will do so until March 31st, 1970.

INVESTMENT IN OTHER COMPANIES

No change was made in the investment in and advances to North America Business Equipment Limited. The arrangement with The Hamilton Cotton Company, Limited (as noted hereunder) provides that Cosmos may deliver this investment and advances in satisfaction of a note for \$1,500,000 owed to The Hamilton Cotton Company, Limited which is due on or before June 30, 1969. It is the intention to complete this transaction in this manner. This will provide a gain of \$137,529 over cost.

Further sales were made during 1968 of shares of Technical Animations, Inc., which resulted in a profit of \$73,164. Of the remaining 40,500 shares carried at nominal value, 25,000 shares have been registered for trading, and it is intended to dispose of these shares as the opportunity occurs. This could result in a non-taxable profit, when realized.

PLANT

Capital expenditures were \$651,557 in 1968, as compared with \$1,418,937 in 1967. Other than replacements in the usual course, no significant capital expenditures are foreseen in 1969.

SUBSEQUENT EVENTS

The textile assets of The Hamilton Cotton Company, Limited (excluding its Narrow Fabric Division whose products differ from those of Cosmos Imperial Mills, Limited) were acquired on March 22, 1969 under an arrangement, the details of which are set out in Note 11 to the financial statements

By this acquisition, the Cosmos Imperial Mills, Limited will have annual sales of \$20,000,000 or more, and a substantially improved working capital position resulting from the sale to The Hamilton Cotton Company, Limited of investments and treasury shares. While the consolidation of the expanded operation will take some months, worthwhile cost reductions and other benefits will result, which will lead to improved profit.

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Shareholders will be asked in the near future to approve a by-law to change the name of the Company in keeping with its new scope. Other aspects of the expanded company such as location of mills, sales offices, and new officers have been incorporated elsewhere in this report.

DIRECTORS

Mr. Alan V. Young has resigned as Chairman of the Board but will stand for re-election as a Director. Mr. C. Sydney Frost, M.C., D.C.L., has expressed a wish to retire as a Director. Mr. Frost has served as a Board Member for many years, and has made significant contributions to the success of the companies. The Directors express their sincere appreciation of his many years of service and his loyal attention towards furthering the interests of the shareholders.

Mr. William J. Cheesman will be proposed at the annual meeting of shareholders to fill the vacancy.

The Directors express their appreciation to the employees who co-operated so well in a difficult year.

On behalf of the Board,

E. DOUGLAS JAMES,
President.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF COSMOS IMPERIAL MILLS, LIMITED:

We have examined the consolidated balance sheet of Cosmos Imperial Mills, Limited and its wholly-owned subsidiaries as at December 31, 1968 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & Co.,
Chartered Accountants.

Hamilton, Canada,
March 25, 1969.

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COSMOS IMPERIAL MILLS, LIMITED(INCORPORATED UNDER THE LAWS OF CANADA)
AND ITS WHOLLY-OWNED SUBSIDIARIES**CONSOLIDATED BALANCE SHEET****DECEMBER 31, 1968**

(with comparative figures at December 31, 1967)

ASSETS**CURRENT**

	<u>1968</u>	<u>1967</u>
Investment in marketable securities — at cost (approximating market value) . .	\$ 108,388	\$ 100,000
Accounts receivable	1,067,006	935,100
Inventories (note 1)	1,838,522	1,588,346
Income taxes recoverable (note 10)	—	75,700
Prepaid expenses	59,148	74,092
Total current assets	<u>3,073,064</u>	<u>2,773,238</u>

INVESTMENT IN AND ADVANCES TO OTHER COMPANIES (note 2)	1,362,471	1,362,471
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FIXED (note 3)

Land, buildings and equipment valued substantially at cost	10,664,725	10,025,177
Less accumulated depreciation	<u>4,247,571</u>	<u>3,711,802</u>
	6,417,154	6,313,375

SPECIAL REFUNDABLE TAX	7,674	30,000
	<u>\$10,860,363</u>	<u>\$10,479,084</u>

LIABILITIES

CURRENT	1968	1967
Bank indebtedness	\$ 1,785,306	\$ 955,668
Accounts payable and accrued charges	318,889	220,233
Income and other taxes payable	6,172	20,131
Current instalments on bonds (note 5)	178,889	178,889
Total current liabilities	2,289,256	1,374,921
LONG TERM		
Bank loan (note 4)	550,000	550,000
7% first mortgage sinking fund bonds of a subsidiary company (note 5)	2,151,111	2,331,111
	2,701,111	2,881,111
DEFERRED PROFIT on sale of equipment (note 6)	541,242	676,553
DEFERRED INCOME TAXES (notes 7 and 10)	494,000	673,000
SHAREHOLDERS' EQUITY		
Capital stock (note 8) —		
Authorized — 500,000 common shares without par value		
Issued — 400,000 common shares	1,684,883	1,684,883
Retained earnings (statement 2)	3,149,871	3,188,616
	4,834,754	4,873,499
	\$10,860,363	\$10,479,084

On behalf of the Board:

WILLIAM H. YOUNG, *Director*

E. DOUGLAS JAMES, *Director*

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COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

(1) INVENTORIES —

The inventories are valued at the lower of cost and net realizable value and consist of the following:

	<u>1968</u>	<u>1967</u>
Raw materials	\$ 485,872	\$ 397,822
Work in process	435,612	378,678
Finished goods	882,449	754,756
Factory supplies	34,589	57,090
	<u>\$ 1,838,522</u>	<u>\$ 1,588,346</u>

(2) INVESTMENT IN AND ADVANCES TO OTHER COMPANIES —

Investment and advances consist of:

	<u>1968</u>	<u>1967</u>
North America Business Equipment Limited —		
90,000 common shares — cost	\$ 312,470	\$ 312,470
10,000 preference shares — cost	500,000	500,000
Advances	550,000	550,000
	<u>1,362,470</u>	<u>1,362,470</u>
Technical Animations, Inc. —		
Class A shares — at nominal value	1	1
	<u>\$ 1,362,471</u>	<u>\$ 1,362,471</u>

During the year the company sold 11,750 shares of Technical Animations, Inc. for \$73,164; the proceeds have been included in income as profit on sale of investments. The remaining 40,500 shares are carried at nominal value, pending their registration for trading under the rules of the United States Securities and Exchange Commission.

COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

(3) FIXED ASSETS —

The major categories of fixed assets are as follows:

	December 31, 1968			Net book value December 31, 1967
	Cost	Accumulated depreciation	Net book value	
Land	\$ 80,251		\$ 80,251	\$ 80,251
Leasehold improvements	37,881	\$ 3,106	34,775	36,484
Buildings	4,018,433	1,384,792	2,633,641	2,712,430
Machinery and equipment.	6,528,160	2,859,673	3,668,487	3,484,210
	<u>\$10,664,725</u>	<u>\$4,247,571</u>	<u>\$6,417,154</u>	<u>\$6,313,375</u>

Buildings are depreciated on the declining balance method at varying rates of 4% to 10%.

Machinery and equipment is depreciated on the straight-line basis using a rate of 7½% per annum except for automotive equipment which is depreciated on the declining balance method using a rate of 30% per annum.

(4) BANK LOAN —

The bank loan of \$550,000 is due June 30, 1969. It has not been classified as a current liability as repayment of the loan will be effected in conjunction with the transactions referred to in note 11.

(5) 7% FIRST MORTGAGE SINKING FUND BONDS OF A SUBSIDIARY COMPANY —

Authorized:

Series A — repayable by equal annual instalments on September 30 in each of the years 1969 to 1976 inclusive	\$ 810,000
Series B — repayable by equal annual instalments on September 30 in each of the years 1969 to 1986 inclusive	1,670,000
	<u>\$2,480,000</u>

Issued:

Series A	\$ 710,000
Series B.	1,620,000
	<u>2,330,000</u>
Less principal repayments due within one year	178,889
	<u>\$2,151,111</u>

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COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

(6) DEFERRED PROFIT ON SALE OF EQUIPMENT —

In 1964 the company sold certain equipment and leased it back for a period of eight years at an annual rental of \$188,516 payable in equal monthly instalments. Upon expiry of the initial term the lease is renewable at the option of the company for eight successive terms of one year each at substantially reduced rentals.

The profit on the sale is being taken into income on a straight-line basis over the initial term of the lease (\$135,311 per annum). The unamortized balance is included in the accompanying balance sheet under the caption "Deferred profit on sale of equipment".

(7) INCOME TAXES

The company and its subsidiaries follow the generally accepted accounting practice of deducting in the statement of income the amount of income taxes applicable to the income reported for the year. This may differ from the amount of income taxes currently payable by reason of timing differences principally relating to differences between the amount of capital cost allowance deductible for tax purposes and the amount of depreciation recorded in the accounts. The accumulated excess (on a consolidated basis) of the amount of income taxes provided over the amounts currently payable is included in the balance sheet as "Deferred income taxes".

A subsidiary company, qualified for tax exemption under section 71A of the Income Tax Act, has recorded depreciation charges which, together with a loss for tax purposes incurred by the parent company in 1968, will be available for deduction from taxable income of future years. The consequent reduction in income taxes, if realized, would amount at current rates to \$278,000 (\$201,000 arising from 1968 operations). This reduction is not reflected in the accounts.

COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

(8) CAPITAL STOCK —

On May 13, 1968 the company obtained supplementary letters patent increasing the authorized capital to 500,000 common shares without par value.

(9) STATUTORY INFORMATION —

Remuneration received in 1968 by directors of Cosmos Imperial Mills, Limited as directors, officers or employees of the company and its subsidiaries aggregated \$68,458.

(10) RESTATEMENT OF WORKING CAPITAL —

During the year taxable income of two prior years was reassessed deducting additional capital cost allowances. As a result income taxes provided in those years aggregating \$75,700 have been transferred from current to deferred income taxes. This adjustment has been given retroactive effect in the accompanying financial statements by restating the accounts as at January 1, 1967.

(11) SUBSEQUENT EVENTS —

The company has agreed to purchase the textile operations (excepting the narrow fabrics division) of The Hamilton Cotton Company, Limited as of March 22, 1969. The agreement provides that the company will buy inventories, accounts receivable and certain other assets at a cost estimated at \$4,500,000, and will lease the land, buildings and equipment. The purchase price will be paid by the assumption of the liabilities of the textile business of The Hamilton Cotton Company, Limited, bank and other borrowings (which have been arranged), and the issue and sale of 100,000 common shares in the capital stock of the company at \$10 per share.

COSMOS IMPERIAL MILLS, LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
Sales	\$5,835,447	\$6,369,773
Costs and expenses other than the following	5,101,837	5,463,474
Income from operations before the following deductions	733,610	906,299
Depreciation	547,778	483,858
Bank interest	162,529	101,925
Bond interest	172,516	165,757
	882,823	751,540
Income (loss) from operations	(149,213)	154,759
Income from investments	88,764	87,947
Profit on sale of investments (note 2)	75,704	11,927
Income before income taxes recoverable	15,255	254,633
Income taxes recoverable (note 7)		
— current	(7,000)	8,000
— deferred	(179,000)	(137,000)
	(186,000)	(129,000)
Net income for year	201,255	383,633
Retained earnings at beginning of year	3,188,616	3,124,983
	3,389,871	3,508,616
Dividends paid (60c per share in 1968; 80c per share in 1967)	240,000	320,000
Retained earnings at end of year	<u>\$3,149,871</u>	<u>\$3,188,616</u>

COSMOS IMPERIAL MILLS, LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS, YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

SOURCE OF FUNDS:

Operations —

	<u>1968</u>	<u>1967</u>
Net income for year	\$ 201,255	\$ 383,633
Charges or (credits) not affecting working capital:		
Depreciation	547,778	483,858
Deferred income taxes	(179,000)	(137,000)
Amortization of deferred profit on sale of equipment	(135,311)	(135,311)
	<u>434,722</u>	<u>595,180</u>
Decrease in investment in and advances to other companies	—	19,107
Proceeds received on 7% first mortgage sinking fund bonds	—	1,723,000
Bank loan due June 30, 1969	—	550,000
Total source of funds	<u>434,722</u>	<u>2,887,287</u>

APPLICATION OF FUNDS:

Acquisition of fixed assets (net)	651,557	1,418,937
Dividends	240,000	320,000
Payment (refund) of special refundable tax	(22,326)	6,000
Provision for repayment of bonds	180,000	268,889
Total application of funds	<u>1,049,231</u>	<u>2,013,826</u>
INCREASE (REDUCTION) IN WORKING CAPITAL	(614,509)	873,461
WORKING CAPITAL AT BEGINNING OF YEAR (note 10).	<u>1,398,317</u>	<u>524,856</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 783,808</u>	<u>\$1,398,317</u>

10 YEAR SUMMARY

(Expressed in thousands except where noted**)

OPERATIONS	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Sales	\$5,835	\$6,370	\$5,616	\$6,725	\$6,992	\$5,920	\$5,464	\$5,329	\$5,086	\$4,461
Income before the following	734	906	720	881	1,066	884	728	648	858	869
Income from investments (including profits on sale)	164	100	39	61	63	3	9	13	12	18
Depreciation	548	484	307	300	238	211	211	211	210	210
Interest (bond and bank)	335	268	49	26	51	7	—	—	—	—
Income before income taxes	15	255	403	616	840	669	526	661	660	665
Income taxes (recoverable)	(186)	(129)	120	241	404	303	*220	*305	*295	*260
Net income for year	201	384	283	375	436	366	306	356	365	405
Dividends paid	240	320	320	320	320	280	320	320	320	320
Retained earnings	(39)	64	(37)	55	116	86	(14)	36	45	85
Net income per share** . . . . .	.50	.96	.71	.94	1.09	.92	.77	.89	.91	1.01

* Note: For the years 1962 and prior income taxes were calculated on the taxes payable basis.

FINANCIAL POSITION	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Current assets	\$3,073	\$2,698	\$2,270	\$3,314	\$5,567	\$3,418	\$3,224	\$3,922	\$2,869	\$3,475
Current liabilities	2,289	1,375	1,821	1,453	2,585	1,407	1,144	1,356	305	599
Working capital	784	1,323	449	1,861	2,982	2,011	2,080	2,566	2,564	2,876
Investments	1,362	1,362	1,382	1,361	800	799	492	—	—	—
Fixed assets (net)	6,417	6,313	5,378	3,192	2,454	2,251	2,341	2,362	2,341	1,974
Other assets	8	30	24	—	—	—	—	16	—	7
Long term debt	8,571	9,028	7,233	6,414	6,236	5,061	4,913	4,944	4,905	4,857
Deferred profit on sale of equipment	2,701	2,881	877	—	—	—	—	—	—	—
Deferred income taxes	541	677	812	947	1,082	—	—	—	—	—
Shareholders' equity	494	597	734	620	407	320	—	—	—	—
Book value per share**	3,736	4,155	2,423	1,567	1,489	320	—	—	—	—
	\$4,835	\$4,873	\$4,810	\$4,847	\$4,747	\$4,741	\$4,913	\$4,944	\$4,905	\$4,857
	\$12.09	\$12.18	\$12.02	\$12.12	\$11.87	\$11.85	\$12.28	\$12.36	\$12.26	\$12.14

Note: In 1963 the company changed to deferred tax accounting. Income taxes of prior years of \$232,000 in 1963 and \$64,000 in 1965 were charged to retained earnings.

